

To: Chair and Members of the County Council

Date: 7 November 2014

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Dear Councillor

I refer to this agenda for the meeting of the **COUNTY COUNCIL** to be held at **2.00 pm** on **MONDAY, 17 NOVEMBER 2014** in **COUNCIL CHAMBER, COUNTY HALL, RUTHIN LL15 1YN** and enclose the following report(s).

**Agenda Item
No**

4 VOLUNTARY MERGER BETWEEN CONWY COUNTY BOROUGH COUNCIL AND DENBIGHSHIRE COUNTY COUNCIL - EXPRESSION OF INTEREST (Pages 3 - 12)

To consider a report by the Chief Executive (copy enclosed) to provide an update about the work done on the voluntary merger option since the Council meeting of 9 September 2014, and to recommend that the Council agrees to submit the attached Expression of Interest (EOI) to the Welsh Government by the end of November 2014.

Yours sincerely

G Williams
Head of Legal and Democratic Services

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**Denbighshire County Council and Conwy County Borough Council's
Expression of Interest for Voluntary Merger**

Considered by both Councils on 17th November 2014

Introduction

Both Councils are satisfied that, were it not for the extreme financial pressure on budgets anticipated in the coming years, both Councils would remain viable and could continue to perform well. That said, if substantial budget cuts are an inevitability, and if the Welsh Government continues to wish to change local government in Wales via the merger of existing Councils, then both Conwy and Denbighshire Authorities are willing to consider volunteering for merger in 2018, provided the additional costs and challenges presented by such early merger can be supported and mitigated with the Welsh Government.

This Expression of Interest has been approved by Conwy County Borough Council and by Denbighshire County Council at Council meetings on 17th November 2014.

General approach to decision making in relation to important merger issues

During the merger programme there would be decisions to be made at three distinct fora:

- (1) those taken by each of Conwy and Denbighshire Councils in order to explore and develop the Merger Proposal (business case) for the viability of a merger;
- (2) those to be taken by the Shadow Authority during the transition phase (April 2017 to March 2018);
- (3) and those to be taken by the New Authority post Vesting day.

It is proposed, as a general principle, that decisions should be taken at the most appropriate forum, by which we mean, at the forum that will be impacted most by the decision. For example, decisions in relation to the name of the New Authority should be made by the Shadow Authority or New Authority.

1. Vision for the New Authority

- 1.1 It is understood that, in the absence in the Williams Commission Report of a vision for local government and local democracy for the future, the Welsh Government is to publish its vision for local government/democracy in the New Year 2015. Clearly, existing Authorities will respond to the Welsh Government's engagement on that developing vision, and the successor to the existing Authorities will need to reflect that new vision and evolve its own local articulation of such through its Shadow Authority arrangements and beyond.
- 1.2 What can be articulated at present is that there are a number of similarities between the two existing Councils (and indeed a number of joint approaches already in place), and that Conwy and Denbighshire Councils are both good, well performing Authorities in their own rights. Therefore, in the short term the focus is likely to be on preserving good performance, managing the extremely challenging financial agenda, and aligning the cultures and priorities of the two counties. It is inevitable that, through a merger of two

good Authorities, officers and members would strive to take the best approaches from each and seek to implement them across the broader, New Authority, area. A set of shared values to work through transition would need to be developed, but it is apparent that there is already in existence a shared culture of continuous improvement in both existing Authorities which would be adopted.

2 Capacity and Capability

2.1 Neither Council has had capacity or recruitment issues under current arrangements, nor does either Council have significant demand for specialist services that cannot be met.

2.2 Whilst there is capability, there is currently insufficient capacity within either Council to deliver the significant challenge posed by merger while, not only seeking to maintain essential on-going services, but also meeting the massive challenge of budget cuts.

2.3 Capacity and resource challenges will be financial, IT, and staff capacity (at all levels). There will be a need for additional support and expertise to enable the creation of a Merger Proposal and, if viable, support for the implementation of the merger but it must be emphasised that developing and implementing a merger will certainly take key existing personnel of both Councils away from delivering on-going services and identifying savings and managing cuts. Proposing, preparing for and implementing merger at a time of an evolving vision for local government while managing severe financial cuts will be the biggest challenge ever facing the two Authorities.

3 Leadership, Recruitment and Retention

3.1 Neither Authority has had any difficulties in recruiting and retaining high calibre staff at a leadership level, or in service specialisms. Recent recruitment processes for senior positions provide sound evidence that the Authorities are attractive employers for such leadership posts.

3.2 A merger of Authorities does carry a risk that older (and therefore more experienced) members of staff are more likely to retire. Experience and local knowledge and understanding of a locality's needs and culture is important to the success of local democracy. Therefore care will need to be taken to recruit and retain the right staff to develop the New Authority, without losing key local knowledge and experience.

3.3 The recruitment and retention and management strategies for the New Authority will need to be developed with/by the Shadow Authority for the New Authority with the benefit of advice from the Staff Commission.

4 Efficiency

- 4.1 A merger would reduce the number of senior staff and Elected Members. However, it is important that the merger is not merely assessed in terms of reduced head count and financial savings. The viability of the Merger Proposal will need to be based upon a number of benefit areas (which could include improved performance, strengthened local democracy and governance, and improved quality of service).
- 4.2 The merger alone will not assist the design of a medium to long term financial strategy. This is very much dependent on the stability of the budget setting cycle, the level of budget cuts in the Revenue Support Grant, and the stability of long term indicative settlements.
- 4.3 It is too early at this stage to detail the changes in corporate and democratic functions. That will be something for further consideration in any Merger Proposal and then determined by the Shadow Authority and/or New Authority.
- 4.4 CIPFA have been commissioned to provide some administrative and early 'high level' financial information in respect of a merger of Conwy and Denbighshire Councils, including the identification of additional costs/ burdens as a consequence of an early merger in 2018. Their paper is attached as an appendix. CIPFA have set out the following estimate of likely transition costs in respect of some of the areas explored to date:

Table 1

COST AREA	TOTAL COSTS (£000)
Redundancy	1,231
Job evaluation process	272
Change programme teams	1,768
Change management consultancy support	241
Property	250
Systems migration consultancy support	180
Systems migration programme teams	772
Merger planning team	841
TOTAL	£5,555

- 4.5 It should be noted that the council tax harmonisation issue may well add to these costs. Options for harmonisation will be examined in more detail during the development of the Merger Proposal.
- 4.6 Similarly, the harmonisation of staff pay and terms and conditions is likely to lead to further additional costs. However this would depend on the policies adopted by the New Authority together with advice from the Staff Commission, once established.

They will be examined further during the development of the Merger Proposal.

4.7 Further costs associated with the harmonisation of key services such as schools, education (non-schools), social services, and waste are likely to occur as a consequence of the merger. This will be developed in more detail as part of the Merger Proposal.

4.8 CIPFA believe that the following realistic **annual savings** can be achieved:

Table 2

AREA	£000
Support / Back Office Services	2,259
Merged and rationalised management of 'middle office' and 'front – line' services	1,081
Administrative Accommodation	98
Democratic	629
TOTAL	£4,067

4.9 These combined annual savings will help support the additional costs, which are still to be identified.

5 Accountability and Engagement

5.1 The Shadow Authority will need to reflect on the (proposed) White Paper 'Democracy & Community Governance', and on the existing White Paper 'Performance, Improvement & Scrutiny' when devising new democratic arrangements for the New Authority – including, of course, the role of scrutiny. Whilst that will be a matter for the Shadow Authority, in both existing Authorities there is an embedded culture that recognises the important role scrutiny has to play in driving improvement; actively working to make improvements as a result of the recent WAO national report on scrutiny. Under current arrangements both Authorities have similar systems for scrutiny: both are based on themes not directorates, and both follow a practise of pre scrutiny of recommendations prior to Cabinet or Council approval.

6 Demographic, Financial and Demand Pressures

6.1 Conwy's population is approximately 115,000; Denbighshire's 95,000 making a proposed New Authority total of 210,000.

6.2 Welsh Government 2011 population projections show a large increase in the number of older people for both counties over the next 10 to 15 years. This will bring a large increase in numbers requiring support and care from both Social Services and the Local Health Board, including both residential care and community based support. At the same time the already high number of carers providing unpaid care in the community will increase, as will demand for Council services to support them. Both Conwy and Denbighshire are among the counties in Wales with the highest

proportion of older residents, so the New Authority's pressure in this area is likely to be more significant than in other Welsh regions.

- 6.3 In addition to the health problems associated with old age, both Conwy and Denbighshire identify common health problems among their communities, such as alcohol abuse, child obesity, and smoking among young people and during pregnancy.
- 6.4 Both counties have identified weaknesses in their local economies, which are heavily dependent on tourism, retail, and the public sector. Although improved recently, tourism has been in long term decline, with noticeable impacts in particular in the levels of deprivation in Colwyn Bay and Rhyl. Both towns are priorities for regeneration funding and feature among the most deprived in Wales according to the WIMD 2011. With a high dependency on the public sector for employment, the national austerity measures will continue to have a wider impact on the local economies for both counties at least for the short to medium term. Both counties also contain a significant agricultural sector within their rural communities, and provide financial support through the Rural Development Partnerships.
- 6.5 In the longer term both counties will start to see falling school pupil numbers. This has implications for school budgets and is already challenging the viability of some of the smaller schools, especially in the rural communities. Modernising and improving schools has already started in both counties but requires significant financial investment. As with all of Wales, improving school attainment to be more in line with the rest of Europe is a key strategic priority.
- 6.6 Both counties have insufficient affordable housing or social housing to meet the demand. Both have historical problems with poor quality housing in some areas, in particular among the private rented sector with houses of multiple occupation. Both are also concerned about the impact of fuel poverty and the associated health problems that can be linked to the older housing stock (which has poor insulation and inefficient heating systems). The Local Development Plans of both counties have been adopted and include provision for large numbers of additional housing (including affordable housing). These developments need to be managed across both counties to ensure maximum community benefit.
- 6.7 The Welsh Government 2011 population projections also show a declining workforce for both counties. This has implications for the local economy and future regeneration strategies. Both counties struggle to retain talented young people, with an outward migration of young people linked to the absence of a higher education establishment, lack of appropriate local employment opportunities, and a lack of appropriate and affordable housing.
- 6.8 Channel shift away from traditional face to face or telephone contact towards online interaction is a priority for both counties. National surveys show a significant increase in the use of the internet for household activities such as shopping and banking. The demand for a similar means to interact with the public sector is rapidly increasing. The rise of social media also provides both challenges and opportunities for both counties.

6.9 In recent years both counties have had to respond to the extreme weather that experts in climate change predict will become more common in the future. Recent problems include:

- Significant property damage and evacuations linked to flooding;
- Property damage, road blockages and personal injuries from high winds;
- Grass and moorland fires linked to summer droughts.

7 Welsh Government Support for Merger

7.1 This is a crucial area of exploration. Both Conwy and Denbighshire are willing to progress a voluntary merger if, by doing so, they are provided with a strong financial incentive and/or support, specifically:

- Funding of the cost of merger (e.g. staff, IT and buildings);
- Funding for the cost of managing the process (e.g. project management, change management, specialist support);
- Relaxation in the level of cuts to which we are subject. Neither Authority has the capacity to manage cuts *and* the merger in a relatively short period – the two involve too much change, and too much resource;
- Flexibility in the use of grant funding to allow for greater freedom;
- Council Tax harmonisation implications, e.g. Denbighshire's Council Tax charges are higher than Conwy's. How will this difference be addressed in a manner which avoids underfunding for services and big increases in council tax in Conwy: both of which would be considered unacceptable;
- Additional costs associated with the voluntary merger (pathfinder). For example, additional interaction with the Staff Commission, informing legal powers and constitutional arrangements. This provides Welsh Government with an opportunity to develop approaches or solutions to inform future mergers – particularly as there is no precedent where two Unitary Authorities have merged;
- Additional costs associated with having a Shadow Authority of 106 Members for 12 months (2020 merging Authorities will not have such a big Shadow Authority).

8 The Process of Change and Transition

8.1 We would anticipate addressing the issues within this section if Welsh Government approval is given to develop a Merger Proposal.

8.2 There are significant similarities in terms of current structures. Conwy and Denbighshire share a similar approach/ethos to Member engagement and culture, and also share an approach to project management, performance management, and staff Performance Development Reviews. Where there have been capacity issues in the past, steps have already been taken to address them, and to work collaboratively to assist other local authorities. Examples include a collaborative approach to Welsh translation, research support, and regional approaches to adoption services, waste procurement, transport and economic development.

- 8.3 Housing is managed in-house in Denbighshire, but externally by Conwy. There are also different approaches to Waste Management.
- 8.4 If sufficient support is made available to support the merger (e.g. relaxation of cuts, appropriate support provided, and we are enabled to build sufficient capacity) and the timescales for Royal Assent are maintained, the timescales set out are very challenging, but achievable.
- 8.5 To identify potential savings and the time frame for their delivery is a significant piece of work. The CIPFA work is a start, but will need more work of course. This will be undertaken if we proceed to submit a Merger Proposal.
- 8.6 We have found it useful to give consideration to potential obstacles/risks to the merger itself here, and would welcome early discourse on these topics:
- The risk that one of the three parties decides not to (or is unable to) proceed at any point during the process. Some financial incentives/recompense for abortive effort should be put in place, perhaps escalating as the merger deadline approaches;
 - A change in the Welsh Government in 2016 could put the process in jeopardy – again, consideration of recompense for abortive effort/cost should be agreed;
 - There is a risk that the merger does not deliver the savings envisaged and, at the same time, distracts the Authorities from managing the anticipated budget cuts in the most appropriate/sustainable manner.
- 8.7 There will be key issues for all parties in this process: conditions that must be in place and without which one or more parties will not want to proceed. We have not yet identified all of them, but early identification is crucial so that they can be given sufficient attention; The most significant key issues are outlined below:
- 8.8 Parity of voting councillor numbers within the Shadow Authority: Denbighshire Elected Members are concerned that they will always be outnumbered and outvoted because there are 12 fewer Members in Denbighshire (Conwy has 59 Members; Denbighshire has 47 Members).
- 8.9 Assistance in some way from Welsh Government in addressing the existing Council Tax disparity between the two Authorities. Conwy Council is unlikely to proceed if there is to be a significant increase in Council Tax; Denbighshire is unlikely to proceed if there is to be a cap on Council Tax increases which leaves that Authority at a financial disadvantage.
- 8.10 The structure and process of the merger: the costs, and the process and commitment to reach agreement must not hinder progress.
- 8.11 As outlined in the CIPFA appendix, school funding and residential fees differ between the two counties. Parity will be required in order to avoid service differentials, budget shift, and the risk of inequality claims.

8.12 Waste collection processes differ significantly between the two councils. Support will be required to develop a common approach which supports the achievement of the Welsh Government targets.

8.13 Conwy and Denbighshire collaborate in the following areas at present: Youth Justice Service, GwE (regional education), North Wales Economic Ambition forum, Local Services Board, Local Safeguarding Children Board, Community Safety, Social Services Regional Commissioning and Regional Emergency Planning.

8.14 Both Authorities see this merger as more than a sharing of management teams. Rationalisation and transformation are seen as opportunities to be capitalised on as part of the creation of a new local authority.

9 Engagement

9.1 Denbighshire County Council has consulted with Members via Council, and information (in the form of e-mails, and a video) has been supplied to the workforce explaining the rationale behind the decision to support voluntary merger. The Chief Executive has also held drop-in sessions in our large office buildings to enable staff to ask questions about the merger.

9.2 Conwy County Borough Council established a politically balanced Members working group to review the White Paper. The working group made recommendations to Council. Staff have been consulted with through discussions at team meetings and at Staff Council, and their views were fed back to Council. While there were staff concerns regarding their jobs, overall the majority agreed that a voluntary merger was appropriate *if* merger was an inevitability.

9.3 Neither Authority sees the principle of voluntary merger as being an issue about which to consult the public at this stage, particularly as Welsh Government is making it clear that merger is inevitable: it may appear disingenuous to then consult the public possibly giving the impression that public opinion could sway the decision. However local communities will be involved in the development of the New Authority.

9.4 Both Authorities feel a valuable time to engage residents would be as part of any transformation work when redesigning services for the New Authority.

9.5 As requested, if matters are to proceed, a Consultation and Engagement Plan would be developed as part of a more detailed Merger Proposal in June 2015, acknowledging the importance of stakeholders including staff, unions, residents, town & community councils, Members, public sector partners, and businesses, etc.

10 Exceptional Cases

10.1 Not relevant to this Expression of Interest.

11 Initial Consideration of the New Authority's Name and Potential Status

11.1 This should be a matter for the Shadow Authority.

12 Statement from Local Authorities

12.1 Minutes (in draft until formally approved at subsequent Council meetings) of both Councils' discussion and approval of the Expression of Interest are attached.

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